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ISRAEL: Prime Minister Meir will keep the door open for the National Religious Party to join the cabinet as she attempts to form a minority coalition government with the Independent Liberal Party. Her minority government will control 58 of the 120 Knesset seats.

The Prime Minister informed President Katzir of her decision last night after the National Religious Party, citing the refusal of the Chief Rabbinate Council to approve the last-minute compromise worked out with the Alignment on the religious issue, decided not to join the cabinet. She clearly hopes to induce the party to reverse its decision. Mrs. Meir said that she would hold open the cabinet seats originally earmarked for the National Religious Party until the deadlock on the religious issue is broken. The National Religious Party is not bound by the rabbinate's decision and the party's central committee may reconsider when it meets on February 24.

President Katzir has given the Prime Minister one more week to form a cabinet. She must then present it to the Knesset for a vote of confidence. Foreign Minister Eban told Ambassador Keating last week that the Alignment had quietly obtained the agreement of the orthodox Agudah Religious Front to throw its five votes to the government on votes of confidence, which would give her the necessary Knesset majority.

Defense Minister Dayan has apparently also closed ranks with the Prime Minister, who told reporters yesterday that she has requested Dayan to continue to serve in his post. Earlier yesterday it was reported that Dayan had said that he would give Mrs. Meir and any government she formed his fullest support, and had indicated that he might be willing to serve in a new cabinet.

The new minority government should be able to continue to conduct peace talks with the Arabs. The

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[Prime Minister can probably count on sufficient support for the government from the liberal and leftist parties to ensure a majority in the Knesset on Middle East peace issues. Nevertheless, she is probably extremely uncomfortable with the present unstable state of affairs and can be expected to continue to seek a solution that will give her a workable majority in the Knesset.]

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EUROPEAN COMMUNITIES: European Community finance ministers will meet soon to discuss commission and French proposals for coordinating foreign borrowing to finance members' higher oil import bills.

The commission proposes that the EC's European Monetary Cooperation Fund work with member central banks to coordinate the timing of member borrowing. It also suggests that the fund borrow money to lend members seeking capital. Although the commission does not indicate where the funds should be obtained, it is against extensive use of the Euromoney market.

The French proposal calls for EC members to deal directly with oil producers to obtain needed capital. The French feel that such direct dealing would yield better terms than members could obtain individually in the free market.

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LATIN AMERICA: The inter-American meeting of foreign ministers now under way in Mexico City moves into its sessions with Secretary Kissinger today amid a sense of expectancy among some of the Latin and Caribbean participants that the outcome will represent a turning point in US-Latin American relations. Some representatives are concerned, however, that differences of opinion among the Latin Americans may prevent agreement on many basic issues.

A strong sense of nationalism underlies each of the eight topics the Latin Americans have raised for discussion with the US, and nearly all reflect the Latins' desire for US concessions that would enhance their national sovereignty. Five items basically concern pressing economic issues that the Latins believe the US can and should do something about:

- Greater access to US development resources and markets;
- No economic coercive measures against governments that act against foreign-based companies;
- Higher prices for raw materials and better terms of trade;
- "Codes of conduct" for multinational companies;
- Greater access to US technology.

The other Latin items seek review and revision of the existing inter-American system, Panamanian sovereignty over the canal, and a general review of the current state of US - Latin American relations. Two items added by the US are a review of the international situation and a discussion of the energy crisis.

Cuba is not participating directly, and the Cuban question is not on the agenda but is bound to come in for a good deal of attention. Seven of the

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participating nations have full relations with Havana, and several others favor relaxing the multi-lateral sanctions against Cuba imposed by the Organization of American States in 1964. Havana has dispatched a number of journalists and at least one diplomat to Mexico City to cover the conference and has already made it plain that it will be paying closer attention to this meeting than to any similar hemispheric gathering in the last decade.

Although the participants have displayed an unprecedented degree of unity already--especially on the sovereignty-related agenda items--the many differences of opinion among them will be only slightly less evident during the final proceedings than they were in the preliminaries. The Cuban issue is a case in point: a number of Latin American states, led by Brazil and Chile, strongly oppose the recommendations of the group led by Peru and Argentina that favors full ties with Cuba. The energy crisis is likely to prove another Latin bugaboo. Oil-exporting countries like Venezuela and Ecuador may take positions on petroleum pricing and shortage problems that are at sharp variance with those of oil-importing nations. Regional and subregional antagonisms and bilateral problems abound and will intrude indirectly. By common consent, the participants have barred the addition of new items to the already ambitious agenda.

Latin and Caribbean delegates will enter the final stages of the conference somewhat buoyed by news of solid progress recently on two touchy areas of US - Latin American relations. The approval on January 7 of a statement of principles governing the drafting of a new canal treaty between the US and Panama should remove much of the heat from the discussion of this issue at Mexico City. President Nixon's announcement on February 19 of the resolution of a number of pending investment disputes with Peru may likewise help moderate the Latins' voices on the items dealing with economic coercion and transnational enterprises.

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Judging from past inter-American conferences, tangible accomplishments will probably prove difficult to pinpoint. There will probably be many intangible gains, however, which will flow not so much from the formal conference proceedings as from the corridor conversations and other private bilateral contacts. At this point, optimists and pessimists appear fairly evenly divided among the Latin participants. Even the skeptics, however, are eager to hear what Secretary Kissinger has to say. Further, there appears to be general recognition that the meeting offers the best opportunity yet to raise frankly and openly with a senior US official those issues in relations with the US that most trouble its Latin and Caribbean neighbors.

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VIETNAM-CAMBODIA: The Conference on the Law of War now under way in Geneva is the latest forum for efforts to legitimize the Viet Cong's Provisional Revolutionary Government (PRG) and the "government" of Cambodia's Prince Sihanouk.

Hanoi's efforts to seat the PRG have dominated backstage maneuvering at the conference, which is being held to bring the Geneva Conventions of 1949 up to date. If the PRG is seated, it will gain an especially effective rostrum for publicizing alleged US and South Vietnamese "war crimes."

The US delegation thinks the final vote on the PRG, which may be held as early as today, will be extremely close. Saigon has received only lukewarm support from neighboring nations such as Indonesia, Thailand, and the Philippines in trying to block the PRG. Hanoi has been aided by other Communist states and radical-leaning African states, which have had some success in influencing uncommitted delegations.

A vote on the proposal to seat Prince Sihanouk's representatives, put forth unexpectedly on February 19 by China, Algeria, and others, may be held today.

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CHILE: Chile's major Western creditors, the Paris Club, are meeting today to consider Santiago's request for relief of its current debt obligations to that group of \$640 million. Chile, which paid less than one third of its debt amortizations in 1973, faces total debt service payments of some \$740 million this year. In 1972, Paris Club members, who hold \$2.2 billion in Chilean debts, rescheduled payments of \$426 million.

Creditor attitudes toward the new government have shown marked improvement in the last several months as a result of the junta's efforts to bring about economic recovery, success in negotiating a standby credit from the International Monetary Fund, progress in arranging compensation for nationalized industries, and completion of the bilateral renegotiation of its 1971-72 debt to the US. Moreover, Chilean officials have conducted extensive bilateral discussions during the past few weeks and have left favorable impressions in Bonn, Paris, London, and Madrid. Nevertheless, political factors continue to cloud European relations with the Chilean junta.

With the exception of Italy, all Paris Club members are attending the meetings and generally favor some kind of debt settlement. The US, Spain, and Canada favor rescheduling all debt payments due in 1973-75, while most other members prefer a less generous settlement.

The Japanese, British, and Danish delegations probably will accept an 85- to 90-percent rescheduling, despite their preference for less generous terms. Bonn and Paris, on the other hand, have indicated difficulty in accepting anything less than 20 percent in cash. The Dutch appear to be sharply divided on their position, with some elements violently opposed to any settlement that would appear generous. As a result, some Dutch negotiators may attempt to use the Paris Club meetings as a forum for political attacks on the Chilean regime. If this develops, French, German, Belgian, and Swedish delegates might join in and thus cause negotiations to break down.

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JAPAN: Tokyo is expected to freeze prices of 20 basic industrial materials and consumer products this week. The affected items include steel products, cement, artificial fibers, synthetic rubber, polyvinyl chloride, tires, paint, and detergents. Price fixing will force firms to absorb sharp cost increases, stemming in part from oil price hikes, and cause them to cut back investment that is needed to counter the sharp slowdown in economic activity expected this year. With wholesale prices some 35 percent higher than a year ago and consumer prices up nearly 25 percent, the Japanese Government regards inflation as the country's most pressing economic problem.

The Tanaka government is anxious to slow price increases in order to undercut labor's demands for wage hikes this spring and mollify voters before the Diet elections this summer. Until now, the government has regulated the prices of only four consumer products, relying primarily on broad monetary and fiscal measures, campaigns against monopolistic practices, and appeals to hold the price line to fight inflation.

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EGYPT: SADAT'S INTER-ARAB POLICY

The prospect of peace in the Middle East and the beginning of the first serious negotiations to that end have induced President Sadat to assess Egypt's relationship with fellow Arabs even more closely than before he went to war in October. Despite the political capital Sadat gained in the war, his freedom of action is still restricted by inter-Arab politics. He is dependent on the good will of most Arabs. From some, he needs financial assistance, and from others, restraint from undermining the negotiations. He cannot move forward without regard to their views.

A somewhat similar, but more serious problem confronted Sadat in 1971 when the weakness of his position within the Arab world ultimately forced him to give up on negotiations with Israel and the US for an interim agreement on reopening the Suez Canal. He could not, at that time, pursue lengthy negotiations and retain his credibility. He was new in office and lacked the strength to buck the general Arab opposition to any dealings with the Israelis.

A Stronger Hand

Egypt's overall success in the war in October has given Sadat the prestige to face down the charges of surrender that have resulted from his decision to negotiate. The military success was not enough, however, to induce automatic acceptance of his policy of negotiating. The disengagement agreement concluded with Israel, moreover, precipitated charges against Sadat of seeking a unilateral settlement with Israel at the expense of the Arab cause as a whole.

Sadat cannot at this point treat the latter charges lightly, and he cannot afford to let those

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in a position to do serious harm to a peace settlement remain uninvolved in the negotiations. Sadat's strategy calls for approaching each Arab state and each group of Arabs on a different basis as he attempts to win support or at least tolerance for his negotiating policy.

Some states, such as Libya and Iraq, have by their radicalism largely isolated themselves from their neighbors; Sadat can ignore their bombast, but he does have to worry about their influence on radicals in Syria and on the fedayeen. Sadat may hope that President Qadhafi's recent efforts to smooth over his difficulties with Egypt will also force the Libyan leader to temper his public appeal to the radicals.

Others on the periphery of the Arab-Israeli conflict, such as Algeria, are skeptical of negotiations; they are important enough in the Arab world that he cannot ignore them, but they seem satisfied as long as he keeps them informed of what he is doing.

Sadat cannot be so free with some of the others. For widely varying reasons, the cooperation of Syria, Saudi Arabia, Kuwait, the fedayeen, and Jordan is critical to the success of the next phase in the negotiations, to a peaceful post-settlement atmosphere, and to Egypt's political and economic future.

The Syrian Obstacle

At the Arab summit before the Geneva peace conference opened last December, Sadat won a tacit go-ahead for negotiations. Syria was then on record as intending to go to the conference, and few Arab leaders could justify loud opposition when the two states that had borne the brunt of the war chose to continue the struggle by peaceful means.

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The Syrians undercut Sadat when they boycotted the talks. Without Syrian participation, support for Sadat's negotiating policy has diminished. The Syrian move did not alter Sadat's determination to go on with negotiations for the preliminary disengagement agreement, but it has prevented him from going any further.

Syria and virtually all other Arab states have interpreted the successful conclusion of the Egyptian-Israeli disengagement accord as a sign that Egypt intends to abandon the Arab cause and negotiate its own settlement with Israel. As a consequence, Sadat cannot pursue talks on Egyptian aspects of a settlement until Syria has matched Egypt's progress. Nor can he take too much public satisfaction from the disengagement agreement lest he give the impression that this is all Egypt wants from negotiations.

The Economic Backers

Sadat must take account of the long-range political and economic repercussions that could result if he actually attempted to reach a separate peace. He does not want to find himself in the isolation that Jordan's King Husayn has suffered since he drove the fedayeen out in 1971. Today, Husayn would probably follow suit if Egypt decided to proceed unilaterally to negotiate a separate settlement, but the resulting arrangements would be partial and the peace unstable.

Sadat is well aware, moreover, that his isolation would not be only political. Pursuit of a unilateral settlement would seriously endanger the financial and economic assistance from Saudi Arabia, Kuwait, and other Arab oil producers on which Egypt relies heavily. Sadat's relations with King Faysal are close, but he could expect considerably less help if, in Faysal's view, Egyptian determination in the pursuit of total Israeli withdrawal, particularly from East Jerusalem, appeared to slacken.

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Reconciling Palestinians and Jordanians

Sadat's relations with Jordan, on the one hand, and with the Palestinians and fedayeen organizations, on the other, are also dictated by a concern for avoiding damage to Egypt's post-settlement position in the Arab world. Sadat is faced here with a dual problem. He must induce the Palestinians to join the Geneva peace conference and give up their struggle for the annihilation of Israel; at the same time, he must reconcile their participation with Jordan's fear of being upstaged by an independent Palestinian delegation.

Once he has the two involved in the conference, Sadat would not be likely to intervene on issues involving Jordan's West Bank unless they threatened other aspects of an over-all settlement. He does not care whether Palestinians or Jordanians control the West Bank once it is freed from Israeli occupation. He does not want to be burdened with the responsibility for resolving Palestinian or Jordanian difficulties either with Israel or ultimately with each other.

Sadat believes, however, that a stable peace cannot be achieved without some Palestinian participation. On the other hand, he knows that without Jordanian participation, the Israelis cannot be brought to deal with the Palestinian problem in a manner at all satisfactory to the Arabs.

Sadat's present policy toward the fedayeen is designed not so much to support them as to involve them so deeply in settlement efforts that it would be difficult for them to upset the peace. In attempting to clear the hurdles to Palestinian participation put up by the fedayeen themselves and by Jordan, however, Sadat has necessarily concentrated on the fedayeen, to the apparent detriment of Husayn.

Sadat has agreed, in concert with the other Arab leaders, to recognize the Fatah-dominated Palestine

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Liberation Organization as the sole spokesman for Palestinian interests, thus undermining Husayn's claim to speak for the Palestinian inhabitants of the West Bank. He has supported the establishment of a Palestinian government-in-exile, thereby backing Fatah leader Arafat's call for a Palestinian state consisting of the West Bank and the Gaza Strip.

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The difference in Sadat's treatment of the Palestinians and of Jordan--the difference between ostensible support for one and apparent neglect of the other--lies in the position each occupies in the Arab world. The fedayeen can undermine a settlement; Jordan is unlikely to do so. The Palestinian cause commands enough support in the Arab world to make its abandonment dangerous; Husayn is so isolated that disregard for his interests wins Sadat no black marks from his Arab neighbors.

Sadat's relations with the Arabs thus require a delicate balancing and a careful weighing of priorities. Sadat wants a peace settlement with Israel, but to get it he has begun a process that is regarded with suspicion by the Arabs on whom the stability of that settlement and the future of Egypt depend.

He must balance Egypt's need for peace against the requirements of economic and political support from the other Arab states. Peace with Israel is

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not a recognized goal of the Arab cause, and Sadat must maneuver carefully as he attempts to convince the other Arabs that the time has come for a serious attempt to achieve a viable settlement of the 25-year conflict with Israel.

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ISRAEL-EGYPT: Israeli forces are expected to complete their withdrawal from the west bank of the Suez Canal today as scheduled under the disengagement agreement signed on January 18. The separation of forces, which has proceeded smoothly, is to be completed on March 5, when the Israelis are to withdraw to the designated disengagement line in the Sinai Peninsula.

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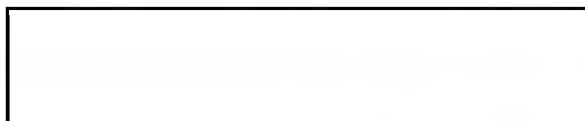


*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

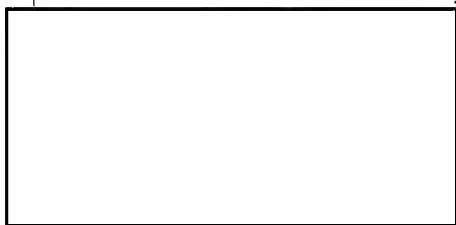
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